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RUEHBJ/AMEMBASSY BEIJING PRIORITY 1793
RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0180
RUEHKO/AMEMBASSY TOKYO PRIORITY 1660
RUEHIT/AMCONSUL ISTANBUL PRIORITY 2229
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RHEHNSC/NSC WASHDC PRIORITY
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RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000830

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SUBJECT: TURKMENISTAN: GAZPROM CEO LEAVES ASHGABAT
WITHOUT RESULTS

REF: ASHGABAT 0819

Classified By: CDA RICHARD E. HOAGLAND: 1.4(B), (D)

11. (C) SUMMARY: In a last-minute effort to reach at least a general agreement with the Government of Turkmenistan on 2009 gas prices and volumes before Russian President Medvedev's July 4 visit, Gazprom CEO Alexei Miller met with President Berdimuhamedov on July 1 -- but to no avail. Turkmenistan's leaders apparently stuck firmly not just to their insistence on higher prices, to be negotiated annually, but also to their wish to avoid strict delivery obligations. Without these commitments, Gazprom is unwilling to move forward on rehabilitation and construction of pipelines that would make possible the increased delivery volumes that Gazprom wants. While time is on Turkmenistan's side, pressure is mounting on Turkmen authorities to demonstrate that they can substantially boost production to meet increased foreign demand. Failure to reach at least an agreement in principle on all of these closely interlinked issues will increase pressure on Turkmenistan to identify and expand its work on export alternatives beyond the 2009 opening of the Turkmenistan-China pipeline. END SUMMARY.

12. (SBU) With time before Russian President Medvedev's July 4 visit to Ashgabat running out, Gazprom CEO Alexei Miller met with President Berdimuhamedov July 1 in an effort to reach agreement with the Government of Turkmenistan on 2009 gas prices, as well as on larger volumes of gas sales. While the president reportedly stated that Gazprom "was and remains Turkmenistan's leading strategic partner," the two sides did not reach agreement on either of these two issues -- or on the issue of pipeline rehabilitation, which may also be complicating negotiations.

13. (SBU) According to Moscow's "Vremya Novostey," the main

disagreement is not over price, but over the principle of long-term guarantees of deliveries. Turkmenistan wants to get a price computed on "net back" from the European price -- but to be able to renegotiate annually the price it receives from Gazprom. Gazprom reportedly is prepared to agree to higher prices, but wants a real long-term contract, including a price formula and strict delivery obligations on Turkmenistan's part. Gazprom does not want to be caught out on the losing end if Turkmenistan is not able to produce enough gas beginning in 2009 to meet its other export contracts and wants to be sure that any cuts made to meet guaranteed deliveries to China of 30 bcm per year will not be made out of its allotment. (COMMENT: Post shares Gazprom's skepticism about Turkmenistan's ability to expand gas production enough to meet its increased delivery commitments in 2009. END COMMENT.) Despite Russia, Kazakhstan and Turkmenistan signed an agreement in December 2007 to rehabilitate the now-unused Central Asia Center-III pipeline along the Caspian shore and build a new pipeline alongside (together forming the new Caspian littoral pipeline), construction has not started, reportedly because Russia wants Turkmenistan to identify a supply source for the pipeline before construction begins.

14. (SBU) This issue is also tied to the larger issue of pipeline rehabilitation and export volumes. Russia needs increased volumes of Turkmenistan gas to offset the limits of its own gas production. But even if the two sides are able to agree to increase gas sales beyond their current level of approximately 50 billion cubic meters (bcm) per year, the

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agreement is unlikely to be implementable until the main gas pipeline system running between Turkmenistan and Russia -- the Central Asia Center I, II and IV pipelines (CAC-I, II and IV) -- is rehabilitated and the Caspian littoral pipeline is opened. Rehabilitation of the pipelines has been a topic of negotiation for months, and post believes that the main pipeline system is currently carrying all it can. Although Turkmenistan is likely willing to fund improvements to the in-country portion of the pipeline system, the bone of contention may be funding for the Uzbekistan portion of the system, which experts here have suggested is most in need of repair. Uzbekistan simply does not contribute enough gas to the system to make the investment worthwhile for Tashkent, while Turkmenistan -- the only other upstream user of the pipeline -- maintains a "gas sales at the border" policy that saddles Gazprom with the responsibility of getting the gas from Turkmenistan's border to Russia. And Gazprom is reluctant to take on these expenses unless it can be sure that Turkmenistan is willing and able to fulfill long-term commitments that would justify paying the costs of the pipelines' rehabilitation.

15. (C) COMMENT: Many looked to Medvedev's visit for an indication that Russia's hydrocarbon-dominated relationship with Turkmenistan is on track as warming relations between Turkmenistan and Azerbaijan increase the possibility of an eventual non-Russian alternative route between Central Asia and Europe. The two sides' inability to reach at least a general agreement in time for the Medvedev visit will probably be viewed as a setback for Gazprom. Time is largely on Turkmenistan's side, given Russia's mounting need to supplement its own gas production, but Turkmen authorities are facing mounting pressure to demonstrate that they can boost production to meet mounting foreign demand. Failure to reach at least an agreement in principle on all three of these closely interlinked issues will increase pressure on Turkmenistan to identify and expand its work on export alternatives beyond the 2009 opening of the Turkmenistan-China pipeline. END COMMENT.
HOAGLAND